

Minimum Wage Review Committee Report

February 22, 2011

Honourable Marilyn More
Minister of Nova Scotia Labour and Advanced Education
5151 Terminal Road, 6th Floor
Halifax, Nova Scotia B3J 2T8

Dear Minister More:

On October 30, 2003, Government approved legislation to establish a Minimum Wage Review Committee. We are the members of the Committee. Representing employees: Rick Clarke, President of the Nova Scotia Federation of Labour and Tom Patterson, past Executive Director of the Nova Scotia Nurses' Union. Representing employers: Sandra Rodd, of Sun Life Financial and Steven MacPherson, General Manager of Jack Astor's Restaurant.

The function of the Committee is to conduct an annual review of the minimum wage and submit a report containing the Committee's recommendations. In 2007, government asked the Committee to consider a 3 year schedule of increases and a possible formula for determining the Minimum Wage. In its report of January 2008, the Committee recommended a series of increases to the minimum wage to April 1, 2011. The implementation of these, completed in October 2010, means that a full time employee earning minimum wage is earning very close to the Low Income Cut Off (LICO) for a single person.

We have continued to meet, as required under the *Labour Standards Code*, to monitor economic and labour market indicators and to develop recommendations for the coming year.

Again this year we have considered various indicators, including economic conditions; Statistics Canada data including the Consumer Price Index, Median Hourly Wage, LICO, a profile of minimum wage workers; labour trends in NS and other jurisdictions; the changing value of minimum wage; and other factors. We have concluded that we should now proceed with indexing minimum wage increases to the Consumer Price Index, as we recommended in our 2008, 2009 and 2010 reports.

The Committee wishes to acknowledge and thank the staff of the Department of Labour and Advanced Education for their support and facilitation of the work of the Committee. In particular, recognition should be given to Marjorie Davison, Rachel Henderson, Holly Cameron and William Grant. In addition, the Committee wishes to acknowledge and thank Brian Watson from the Department of Economic and Rural Development and Tourism for his research and analysis of complex data that enabled the Committee to make informed decisions. Also, thanks are due to Brian Wile and Kimberley Tran of the Department of Finance for a helpful analysis of provincial tax policy and its impact on the working poor.

It has been a pleasure conducting this review for the Department of Labour and Advanced Education, and we look forward to your response.

Respectfully submitted by,

original signed by

Rick Clarke

Steven MacPherson

Tom Patterson

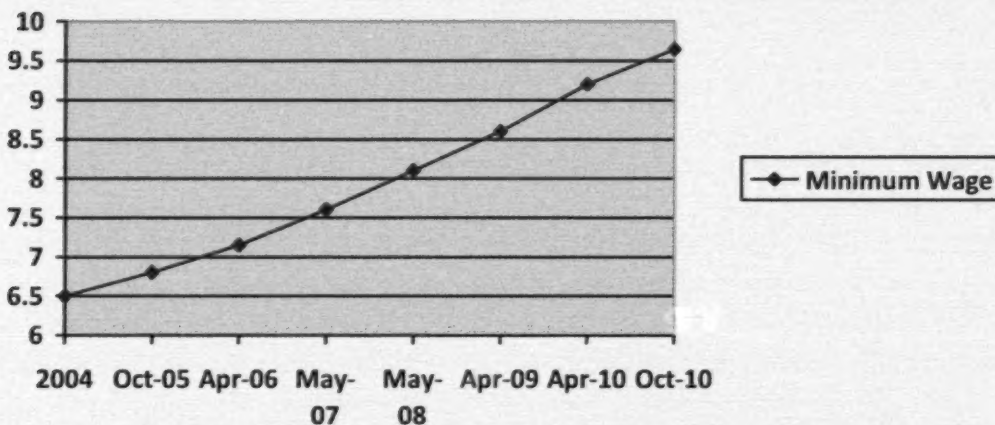
Sandra Rodd

1. Background

In Nova Scotia, workers have their rights protected by the province's *Labour Standards Code*. The Code provides direction to employers and employees on a wide range of topics, including the minimum wage. Some of the Code applies to non unionized workers only, but the minimum wage applies to all workers.

In 2003, the Code was amended to establish a Minimum Wage Review Committee. The Committee is composed of equal numbers of employer and employee representatives appointed by the Minister. The Committee is required to conduct an annual review of the minimum wage and prepare a Report to the Minister containing the recommendations of the Committee. Within thirty days after the Minister receives the Report it will be made public, and within 60 days of receiving the Report the Minister will publish a response.

The recommendations made by the Committee since its establishment in 2004, all of which were accepted by government, are outlined on the graph below. Since 2004 the minimum wage has increased from \$6.50 to \$9.65, an overall increase of almost 50%.



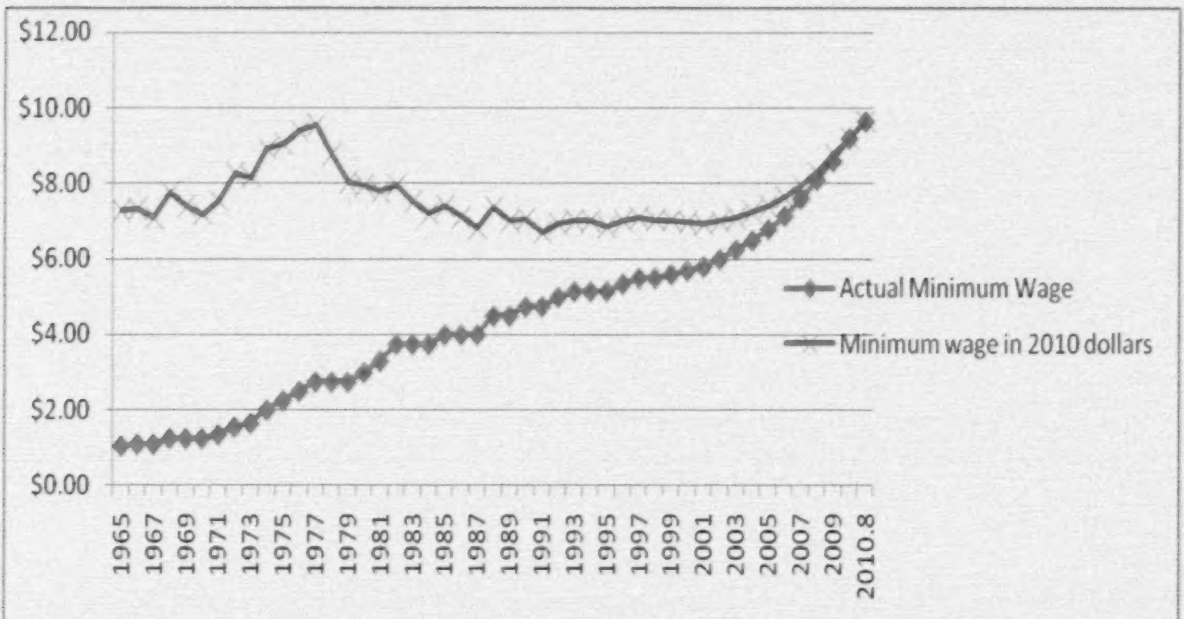
As of October 2010 the minimum wage of \$9.65 is almost equivalent to the LICO (Low Income Cutoff) line for a single person working full time in a community the size of Sydney. The rate for inexperienced workers has increased proportionately and remains 50 cents less than the regular minimum wage rate.

History of minimum wage in Nova Scotia

The Committee is gratified that government has supported its recommendations of quite significant increases in the minimum wage since 2005. We believe that these increases have moved the minimum wage to a reasonable level.

However, it is worth noting that in the broader historical context, the recent increases have essentially allowed the minimum wage to catch up to and slightly surpass the level it was at in the mid 1970s, after decades where the minimum wage fell in real terms, or remained stagnant.

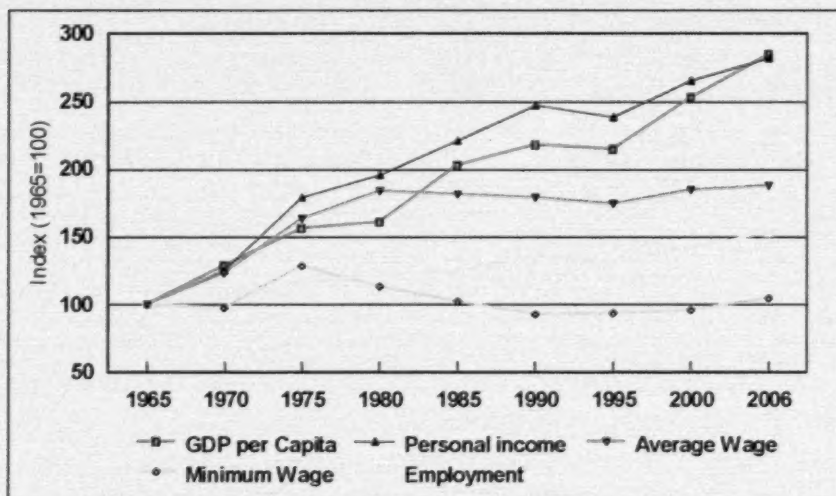
The chart below shows changes in Nova Scotia's minimum wage from 1965 - 2010



As the chart above shows, the minimum wage increased from 1965 to 1977, when it reached the equivalent of \$9.55 per hour in today's dollars. It declined significantly in the 1978 – 1988 period, and then remained relatively constant at about the \$7.00 mark in today's dollars until 2003, when it began a consistent series of increases to the present level of \$9.65 - the highest in real terms that it has been in the last 45 years.

While wages remained more or less constant for minimum wage workers for many years, the income of other Nova Scotians increased dramatically. The chart below tracks increases in constant dollars.

Index of GDP and personal income per person compared to
employment, minimum wage and average wage
1965 to 2006



Source: Statistics Canada, Bank of Canada, Service Canada

2. Principles to Consider

The major principles to consider when setting the minimum wage are:

- maintaining fairness for the lowest paid members of our workforce;
- recognizing minimum wage and cost of living trends;
- balancing the issues relative to economic competitiveness for industry.

3. Purpose of Minimum Wage and Its Impact on Poverty

The purpose of minimum wage legislation is to guarantee a minimum standard of pay. Minimum wage legislation forms part of the response to the problem of low pay, and was developed to protect the most vulnerable workers.

About 60% of minimum wage workers live with family or relatives. Most are under 25 years old. Most work part time. Relatively few are sole family earners. They are concentrated in the accommodation, food service and retail trade sectors. Very few are unionized. Many are in short term employment. Women are overrepresented among minimum wage earners.

In 2009, approximately 63,000 employees received wages near the minimum wage in Nova Scotia (below \$10.00 per hour). This represents about 16.1% of employees paid wages or by the hour in Nova Scotia, which in 2009 included 392,100 full and part time workers.

As the following table indicates, the number of employees earning minimum wage has increased in Nova Scotia. The figure was 6.6% or 25,000 employees for 2008/09 and increased to 7.2% in 2009/10. This is consistent with the national trend, and results from the interaction of minimum wage increases and economic conditions.

Percentage of Employees Earning Minimum Wage by Province
Alberta Minimum Wage Profile – government of Alberta, April 2010

	April 2007 – March 2008	April 2008 – March 2009	April 2009 – March 2010
Canadian Average	5.0%	5.4%	5.9%
Nova Scotia	6.0%	6.6%	7.2%
Ontario	5.6%	7.2%	8.6%
Saskatchewan	3.4%	3.1%	4.3%
Newfoundland and Labrador	6.4%	8.9%	6.4%
Prince Edward Island	7.0%	5.8%	5.6%
Quebec	5.5%	5.9%	6.3%
Alberta	1.3%	1.4%	1.4%
New Brunswick		5.3%	2.9%
Manitoba		5.2%	4.1%

As important as a minimum wage increase is for those who are paid at the lowest level, an increase is important to many more working Nova Scotians because the minimum wage acts as a benchmark wage. Employers who pay lower wages tend to measure their pay scales against the minimum wage. As minimum wages rise, so do other wage rates.

Committee members agree that minimum wage alone cannot fix the problems of the working poor. The cost of necessities and utilities, tax on these items, an increase in precarious employment (casual, part-time, self-employment), lack of well paid jobs, and the high cost of post-secondary education contribute to the concerns of the working poor. In addition to minimum wage, other strategies can help alleviate poverty: tax measures that put more money in the pockets of low income earners (see discussion below on taxes and the minimum wage); education subsidies; affordable transportation, housing and child care.

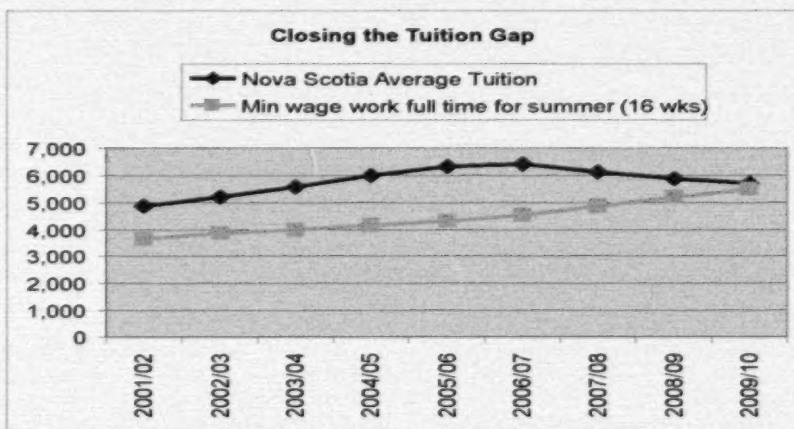
While minimum wage alone cannot effectively address the problem of poverty, it is the only tool within the Committee's mandate. As the Committee has noted previously, a committed and multi-focused approach is required to effectively combat poverty, similar to the approach taken by government with respect to deficit and debt reduction. The Committee is happy that the province is implementing a Poverty Reduction Strategy.

4. Minimum Wage and Students

A significant number of minimum wage earners are students doing summer work and/or part time work during the school year. For post-secondary students, earning enough money to pay the following year's tuition can be of central importance.

The chart below shows that the minimum wage increases of recent years have closed the "tuition gap" so that theoretically a student working at minimum wage for the summer can earn enough for university tuition.

This does not mean that students do not still face significant challenges in funding their education. In 2010 students were relatively disadvantaged compared to other minimum wage workers when it came to getting employment.



Department of Economic and Rural Development and Tourism

5. Minimum wage increases across the country

When recommending the minimum wage rate, the Committee considers minimum wage rates across the country.

The chart below shows the current minimum wage and projected increases across Canada. Saskatchewan, Ontario and Newfoundland have moved to a three year

projection of minimum wage rates. Yukon adjusts its minimum wage based on the provincial consumer price index each year.

Minimum Wages in Canada – updated February 8, 2011

	2007	2008	2009	2010	2011
Alta	\$ 8.00	\$8.40	\$8.80	\$8.80	
BC	\$8.00	\$8.00	\$8.00	\$8.00	
Man	\$8.00	\$8.50	\$9.00	\$9.50	
NB	\$7.25	\$7.75	Apr. 1 - \$8.00 Sept. 1 - \$8.25	Apr 1 - \$8.50 Sept 1 - \$9.00	Apr 1 - \$9.50 Sept 1 - \$10.00
NL	\$7.50	\$8.00	\$9.00	\$10.00	
NWT	\$8.25	\$8.25		April 1 - \$9.00	Apr 1 – \$10.00
NS	\$7.60	\$8.10	\$8.60	April 1 - \$9.20 October 1 - \$9.65	
Nunavut	\$8.50	\$10.00		\$10.00	Jan 1 – \$11.00
Ont	\$8.00	\$8.75	\$9.50	\$10.25	
PEI	\$7.50	\$8.00	June 1 - \$8.20 Oct, 1 - \$8.40	\$9.00	
Que	\$8.00	\$8.50	\$9.00	May 1 – \$9.50	May 1 - \$9.65
Sask	\$7.95	\$8.60	\$9.25	\$9.25	
Yukon	\$8.37	\$8.58	\$8.89	\$8.93	Apr 1 - \$9.00
Average	\$7.91	\$8.39	\$8.84	\$9.30	

The above table shows that since 2007, Nova Scotia has moved from being tenth of the thirteen provinces and territories to having the fourth highest minimum wage in Canada as of December 31, 2010. We note however that several jurisdictions, including New Brunswick in Atlantic Canada, have increases slated for 2011.

6. Minimum wage in a changing economy - Outlook for 2016

Driving force	Impact on minimum wage workers	Impact on wages
Aging & declining workforce	Lower supply	Up
Pensions replace wages	Increased demand for services	Up
Low education retire	Lower supply	Up
Female workers stabilize	Lower supply	Up
Productivity improvements	Machines replace workers	Up
Need for increased skills	Better jobs available	Up

Source: Nova Scotia Department of Economic Development, August 23, 2007.

The above table looks forward to the changing labour market dynamics that will continue to exert upward pressure on wages as demographic and labour market changes continue. The economic downturn in Nova Scotia may have slightly delayed the full impact of these dynamics, but will not alter them fundamentally. The Committee notes that the government's jobsHere plan identifies these dynamics as fundamental to economic planning for the province.

7. Consumer Price Index

The Consumer Price Index (CPI) is an indicator of changes in consumer prices. It is obtained by comparing the cost of a fixed basket of commodities .

CPI for Canada by Year	% Change
2000	2.7%
2001	2.5%
2002	2.2%
2003	2.8%
2004	1.8%
2005	2.2%
2006	2.0%
2007	2.2%
2008	2.3%
2009	0.3%
2010	1.8%

The decrease in 2009 was largely been driven by decreases in the prices of energy.

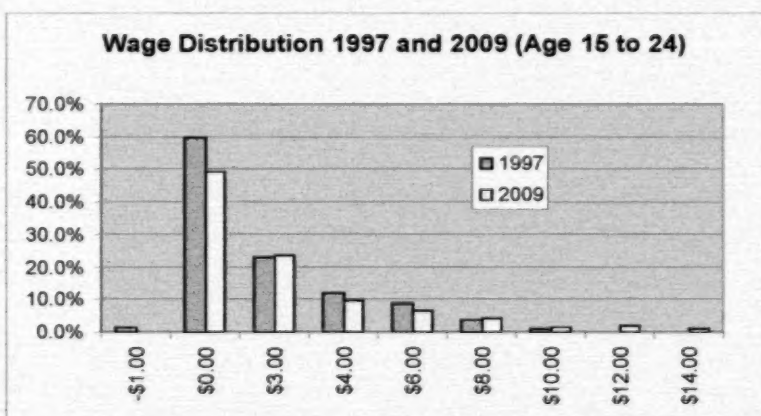
8. Low Income Cut Off Levels

A person in low income is someone whose family income falls below Statistics Canada's low income cut-offs (LICOs). The LICO lines are calculated in relation to the expenditure of an average family on the essentials of food, clothing and shelter. If a family spends 20 percentage points more of its total income on these essentials than the average family, then it falls beneath the LICO line. LICOs are calculated and reported for families of different sizes, living in communities of different sizes ranging from rural to large urban areas. LICO lines are set nationally and do not vary province by province.

Although LICO lines are not "poverty lines" per se, they are the most frequently used metrics when discussing the measurement of poverty and low income in Canada

Labour market dynamics have kept the "market minimum wage" (the median entry level wage for young workers in minimum wage sectors) above the minimum wage. The fact that the market minimum wage (currently approximately \$10.00 per hour) consistently tracks slightly above the actual minimum wage suggests that the labour market has been able to absorb the increases over the past few years.

The chart below shows that despite the significant increases in recent years, wages have not "bunched up" at close to minimum wage for young workers. It also shows that proportionately fewer young workers earned the minimum wage in 2009 than did in 1997.



Source: Statistics Canada – Labour Force Survey

The chart below tracks the market minimum wage against the actual minimum wage and LICO. It shows that Nova Scotia almost reached the LICO by October 2010 as planned.

Inflation has been volatile during the recession, which threw off the Committee's projections slightly. Based on the increase in the national CPI over 22 months, inflation has increased the LICO to \$19,433 or \$9.72 in October of 2010. Thus minimum wage is \$0.07 below the LICO target as of October 1, 2010.

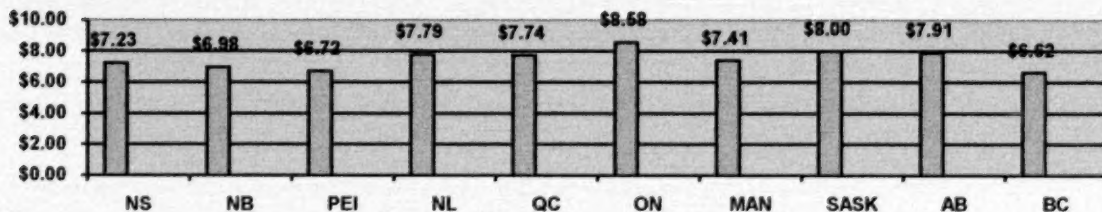
LICO is a national number, which does not reflect provincial variations. When Statistics Canada updates LICO, it will use national data.



Source: Statistics Canada – Labour Force Survey

9. Taxes and Minimum Wage

The 2010 Alberta Minimum Wage Profile analyzes minimum wages and provincial tax policies across Canada and develops an “after tax minimum wage” based on basic federal and provincial income and sales taxes for minimum wage earners. Based on March 2010 rates, the after tax minimum wage in Nova Scotia was \$7.23 per hour (the minimum wage has increased by \$1.05 since then). The chart below shows the after tax rates for the provinces in March 2010.



Some groups have recommended that government use tax policy, rather than or as well as minimum wage increases, as a central tool to assist the “working poor.” The Committee, with the assistance of the Department of Finance, reviewed the impact of income taxes on low wage earning Nova Scotians.

Provincial Tax System – Tax Burden on Households



Department of Finance

The above chart shows the progressive nature of income taxes, and the regressive nature of sales taxes. As household income increases, so does the proportion of income spent on income taxes. However, with sales taxes there is the opposite effect: proportion of income spent on sales taxes decreases as overall household income increases.

The HST increased by 2% in July 2010. However, we note that this was offset for low income Nova Scotians by the Affordable Living Tax Credit introduced in the 2010

budget. Over 242,000 households in Nova Scotia, most with incomes below \$26,000, benefitted from this refundable credit.

Increases in the Basic Personal Exemption amount for income taxes, sometimes called for as a poverty reduction measure, would have minimal impact on the working poor and would in fact be of the greatest benefit to higher income Nova Scotians.

10. Balancing issues relative to economic competitiveness

The purpose of exploring economic competitiveness is to determine, from a Labour Standards perspective, the cost of doing business in Nova Scotia. This means statutory payroll costs which include: vacation pay, statutory holidays, Employment Insurance, Canada Pension Plan, Workers' Compensation, and other miscellaneous categories, such as payroll taxes.

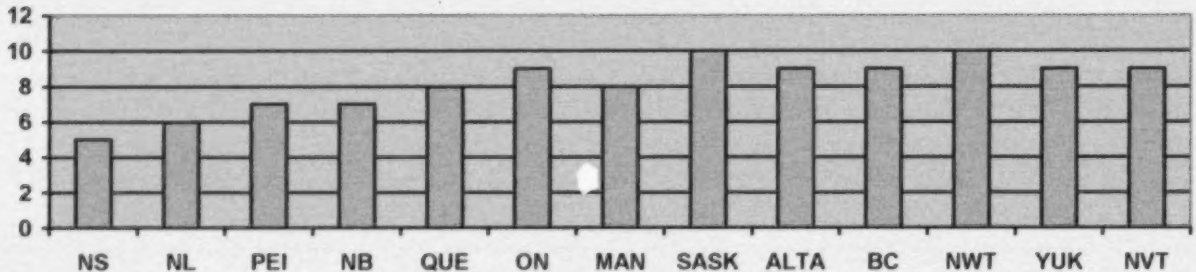
All jurisdictions, except Quebec, pay the same rates for Canada Pension Plan and Employment Insurance. Canada Pension Plan represents 4.95% of payroll and Employment Insurance is 2.492 %. Vacation pay is 4%. Workers' Compensation premiums are significantly higher than the national average.

AVERAGE WORKERS COMPENSATION ASSESSMENT RATES, PER \$100.00 PAYROLL		
	2010	2011 (forecasted / preliminary)
Alberta	\$1.32	\$1.22
British Columbia	\$1.56	\$1.54
Manitoba	\$1.60	\$1.50
New Brunswick	\$2.08	\$2.00
Newfoundland and Labrador	\$2.75	\$2.75
Northwest Territories and Nunavut	\$1.80	\$1.73
Nova Scotia	\$2.65	\$2.65
Ontario	\$2.30	\$2.35
Prince Edward Island	\$2.15	\$2.05
Quebec	\$2.19	\$2.19
Saskatchewan	\$1.63	\$1.61
Yukon	\$2.95	\$2.49

Association of Workers Compensation Boards of Canada

Nova Scotia has the lowest number of statutory holidays in Canada. The Labour Standards Code presently provides 5 paid holidays. The national average is 8.15 paid holidays. Estimations of the cost of a holiday range from 0.4% to 0.5% of payroll for each paid holiday.

Statutory Holidays in Canada



note: In Nova Scotia and Manitoba Remembrance Day has special rules. Some employees who work on Remembrance Day are entitled to some benefits, but employees who do not work are not entitled to holiday pay.

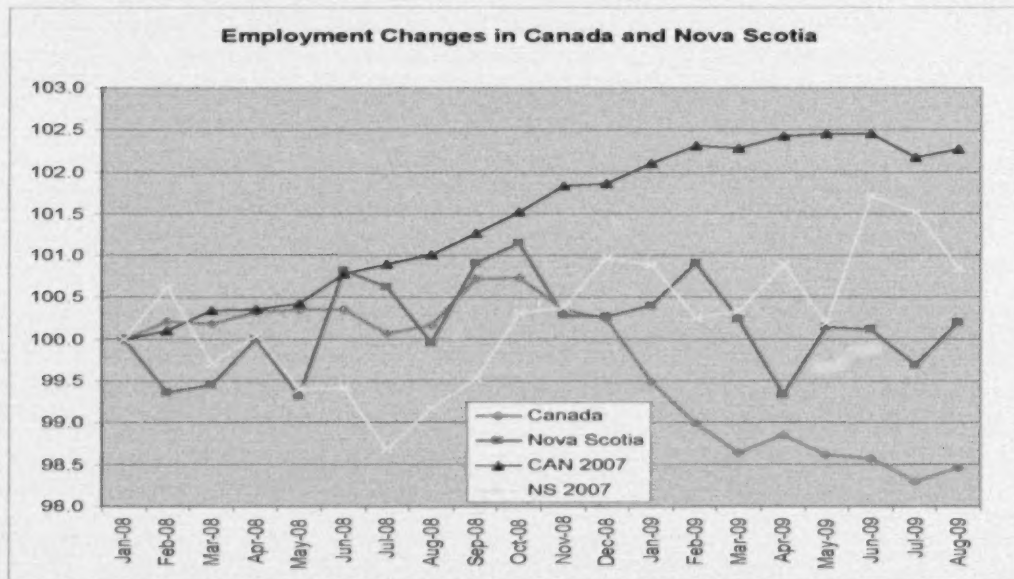
The Canadian Restaurant and Food Services Association website estimates that payroll taxes are about 40% of all taxes paid by food service operators. Canada Business (Gov of Canada website) estimates that staff benefits add between 10-30% above wages/salaries depending on benefits offered.

The table below shows a comparison of profitability for Canadian and Nova Scotian businesses that employ workers at or near minimum wage, for 2008, the most recent data available. Nova Scotian businesses are very close to the national average in profitability. Profitability also increased from 2006 to 2008.

Operating Statistics for Industries that hire Minimum Wage Workers					
Industry		Canada		Nova Scotia	
		Net Profit Margin			
		2008	(2006)	2008	(2006)
Accommodation Services		5.5%	(4.4%)	2.7%	(2.6%)
Food Service and Drinking Places		3.2%	(2.3%)	4.5%	(2.5%)
Personal Care Services		12.4%	(7.8%)	12.3%	(9.8%)
Retail Trade		3.9%	(2.7%)	5.1%	(3.1%)
Source: Statistics Canada – Small Business Profiles and Industry Canada – SME Benchmarking Tool					

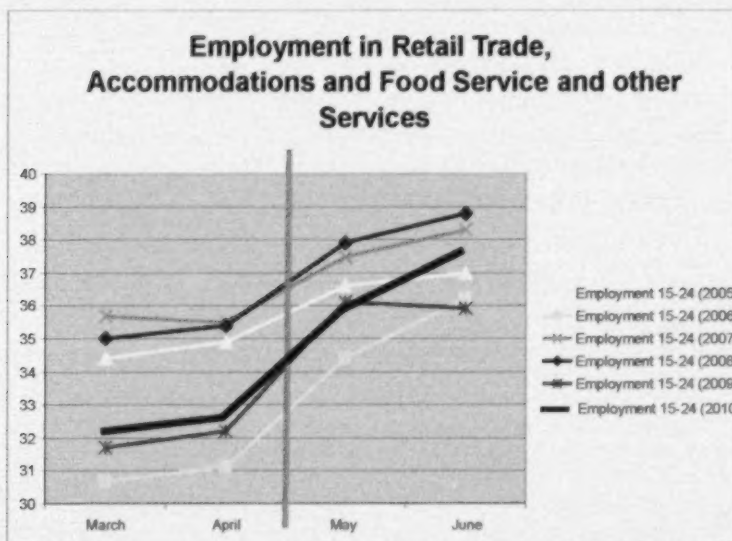
11. The Current Economic Situation

As the chart below illustrates, employment in Nova Scotia was relatively steady in 2008/09, and well above the Canadian average. Employment statistics in the fall of 2010 were somewhat discouraging, but the January 2011 statistics showed fairly strong employment growth – an increase of 6200 jobs from December 2010 to January 2011.



Overall, the employment picture in Nova Scotia is quite strong, although there are regional disparities. In the summer of 2009, the student unemployment rate rose sharply compared to 2008, which was the strongest year on record. The rate rose from 8.3% in 2008 to 19.3% in 2009. The rate recovered somewhat in 2010 to 16.9%. Increases in youth unemployment rate can be accounted for by increased unemployment for very young worker aged 15 to 19. For older non-students, jobs increased.

One of the arguments raised against minimum wage increases is that they will cause an increase in youth unemployment. This remains controversial among economists. Nova Scotia data does not support a negative employment effect. The chart below shows that, apart from 2009, when factors related to the recession and unrelated to minimum wage increases were operative, youth employment increased after minimum wage increases in recent years.



Average weekly earnings increased by 6.3% in Nova Scotia from October 2009 to October 2010, well above the national average of 4.4%. However, average weekly earnings for Nova Scotians, at \$770.80, remain well below the national average of \$863.33 and are among the lowest in Canada.

The average hourly wage in Nova Scotia was \$20.29 in January 2011, an increase of 2.3% from the previous year. The national average hourly wage was \$23.09.

Gross Domestic Product - Nova Scotia's GDP is projected to increase by 1.9% in 2010, which is below the projected national average.

Retail sales in Nova Scotia, which were relatively strong in 2009, increased by over 6% in 2010, well above the Atlantic and Canadian averages.

Nova Scotia Economic Outlook

	2009	2010	2011
Real Gross Domestic Product, 2002\$ (% change)	0.2	1.9	1.2
Nominal Gross Domestic Product (% change)	-1.0	4.4	2.7
Employment (% change)	-0.1a	1.2	0.3
Unemployment Rate (%)	9.2a	8.6	9.0
Personal Income (% change)	1.3	2.1	1.7
Consumer Price Index (% change)	-0.2a	1.6	1.8
Retail Sales (% change)	0.4a	3.1	1.8
Corporation Profits before Taxes (% change)	-29.5	17.2	9.0
Exports of Goods and Services (% change)	-24.4	8.3	9.4

a = actual

NS Economic and Rural Development and Tourism

The economic outlook for Nova Scotia is positive but the recovery is still slow. The labour market is recovering slowly. Retail, tourism and food service industries, which employ most minimum wage workers, have recovered fairly strongly. Regional disparities continue to exist and rural Nova Scotia continues to face particular challenges.

12. Conclusion

Nova Scotia has made significant strides in minimum wage. Increases have been aggressive over the past four years, and that the minimum wage is now almost equivalent to the LICO, which we continue to believe is an appropriate benchmark. The economic recovery is ongoing, but full recovery is likely to be slow.

We have assessed various ways of indexing the minimum wage to LICO and making adjustments based on the CPI. We conclude that since LICO is a national number, the national annual CPI should be used for adjustments. As noted above, this was 1.8% in 2010.

We believe that the minimum wage should be adjusted to correct the shortfall of \$.07 from the LICO as of October 1, 2010, as discussed above.

In our 2008 report, where we recommended the series of increase that concluded with the October 1, 2010 increase, we also recommended that the minimum wage be indexed to the CPI for an April 2011 increase. This would result in a rate of \$9.90 per hour effective April 1, 2011.

Since 2010 saw two significant increases which created significant challenges for employers, we believe it more prudent to defer the next increase to October 1, 2011.

Even if the minimum wage had reached LICO on October 1, 2010 (which in fact, as noted above, it did not), ongoing inflation would continue to erode the position of the minimum wage in relation to LICO as the year progressed. Given that reality, and because we are recommending that the increase be deferred until October 2011, rather than April 2011 as we had originally recommended, we believe that the increase should be slightly higher than it would have been had we indexed effective April 1 and corrected for LICO by adding \$0.07. We recommend that the minimum wage increase to \$10.00 per hour effective October 1, 2011. This is a 3.6% increase.

On a go forward basis, we continue to recommend, as we did in 2008, that the minimum wage be indexed to LICO, effective April 1, based on the CPI for the previous year, starting in 2012. Since the recommended October 2011 increase will bring the minimum wage slightly above LICO, we expect that the April 2012 increase will be modest.

13. Recommendations:

- 1. We recommend that the minimum wage be set by increasing the current rate to \$10.00 per hour effective October 1, 2011, with the inexperienced rate remaining \$0.50 below the regular rate at \$9.50 per hour.**
- 2. We recommend that the minimum wage be re-indexed to LICO in late 2011 based on the estimated CPI for 2011 and that the re-indexed rate take effect on April 1, 2012.**
- 3. We recommend that thereafter the minimum wage be re-indexed annually effective April 1 of the year.**
- 4. We recommend that the Committee continue to meet annually to carry out the re-indexing and to assess whether any changes to these recommendations, or new recommendations, are indicated.**